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How mediated power affects opportunism in owner–contractor relationships: The role of risk perceptions

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Abstract

Contractor opportunism is an obstacle to close collaboration in owner–contractor relationships for construction projects. But little is known about what causes it. This study examines how the mediated power of an owner influences contractor opportunism from the risk perception perspective. Using data from 156 responses to an opinion questionnaire survey, the moderating effect of solidarity on the relationship between mediated power and risk perceptions in the owner–contractor relationship is explored. The data were analyzed with Partial-Least Squares Structural Equation Modeling (PLS-SEM). The results show that the relational risk perceptions and the performance risk perceptions of contractors have a positive influence on their tendency to become opportunist; while the mediated power of the owner can increase the contractor's negative perceptions of relational risks but not performance risks. High solidarity helps to weaken the positive influence of mediated power on the contractor's relational risk perceptions. These findings confirm that risk perception is an important perspective to understand why contractors behave opportunistically. In addressing this situation, owners should put themselves in the contractor's shoes to perceive what kinds of risks the contractor would face, and consider the potential impact of their own behavior to the contractor.

Keywords: Opportunism; Power; Risk perception; Construction project; Owner–contractor relationship

1. Introduction

Owner–contractor relationships have a major impact on project performance in the construction industry (Drexler and Larson, 2000). Advocating a collaborative relationship between owner and contractor is spreading extensively among researchers and practitioners (Suprapto et al., 2015b). However, temporary relationships and low profits to contractors resulting from fierce price competition in this industry, force them to become opportunist with regard to cost recovery (e.g. false make declarations of quantity and price) (Meng et al., 2011). Opportunism is defined as a behavior by a party that pursues self-interests with deceit at the expense of other parties (Das and Rahman, 2010). In construction projects, a contractor's opportunism can cause project disputes that lead to time and cost over-runs (Love et al., 2011), and reduce production efficiency (Korczynski, 1994).

Mechanisms to alleviate opportunism have gained increasing attention from researchers in construction project management. There are two major measures widely recognized: formal governance and informal governance (Lu et al., 2015a). Formal governance includes contractual safeguards that increase the cost of opportunistic behavior by changing the pay-off structure (Lui and Ngo, 2004). Informal governance based on social exchange theory (emphasizing high quality relationships among organizations), mostly relies on trust to limit the inclination towards opportunistic behavior (Laan et al., 2011). The ever-increasing discussions on project governance have provided rich conceptual frameworks for improving owner–contractor relationships. They appear to be powerful tools in theory, but their practical applicability to reduce opportunism is not as effective as expected. Most contractors are reluctant to

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give up opportunistic behavior, because it (e.g. opportunistic claims) can make up their shortfalls in expected profits resulting from fierce competitive bidding (Mohamed et al., 2011), and compensate the potential losses arising from improper risk transfer by owners who have dominant power (El-Sayegh, 2008). This may imply that one reason for a contractor's opportunism is that it has perceived the risks of its poor performance and the improper behavior of an owner (Qu and Loosemore, 2013).

Risk-based decision making plays an important role in construction project management (Wang and Yuan, 2011). Due to the bounded rationality of participants, generally it is more risk perception than risk itself that influences the strategies participants adopted (Zhang and Li, 2015). Risk perception is the judgment of participants about risk (Veland and Aven, 2013). Chan and Au (2007) and Chen et al. (2015) suggested that risk perceptions can affect a contractor's decision-making, such as risk pricing behavior. However, there is a lack of research that investigates whether contractors will become opportunist to reduce the possible loss when they have perceived a high level of risk. Moreover, these studies didn't specify how different types of risk perceived by contractors affect their decision behavior. Xiang et al. (2012) proposed that parties in construction projects are exposed to not only objective risks (e.g. policy risks) but also behavior risks (e.g. uncooperative behavior by other parties) that damage the relationship between parties. Accordingly, in owner–contractor relationships, the contractor needs to deal with two types of risk: relational risk and performance risk. Relational risks stem from the internal interactions among parties, performance risks include all the risks except for those belonging to the relational risk (Das and Teng, 1996). Das and Teng (2001a) suggested that the different perceptions on the two types of risk determine the preferences of the parties for governance structure that involves organization structure (e.g. the structure of project organizations), operational process, control mechanism etc. In the light of this view, the perceptions of different types of risk may have different impacts on contractor opportunism and provide varied viewpoints to explore its antecedents.

The status of Chinese construction market indicates that the owner is at a strong position; while the contractor is at a weak position (Lu et al., 2015a). The dominant party more frequently exerts mediated power to the weaker party on decision making (Brown et al., 1996). In the construction industry, Donato et al. (2015) proposed conceptually that the dominance of mediated power is associated with low collaboration when the power positions of the parties are asymmetry. Mediated power refers to a kind of coercive power relying on extrinsic forms like rewards (punishments), legal or contract terms, the dominant party with such power uses it to gain the compliance of the other party with explicit objectives (Benton and Maloni, 2005). The influence of mediated power on opportunism has got some attention from buyer–supplier relationship management literature (Benton and Maloni, 2005; Handley and Benton, 2012). However, there is a lack of clarity about this influencing mechanism in the construction industry, which is surprising given the high power asymmetry in owner–contractor relationships for construction projects characterized by temporality and payment risks. Moreover, when the dominant party frequently misuses mediated power, the weaker party will perceive a high level of risk in the relationship (Teimoury et al., 2010) and performance (Brown et al., 1996). Therefore, introducing the perspective of risk perceptions may help to explain that how mediated power affects opportunism, which is, as yet, neglected by power-opportunism literature.

Prior empirical research has demonstrated that construction project parties perceive less risk from opportunism and low performance under a good relationship climate created by relational governance (i.e. relational norms) (Lu et al., 2015a). Solidarity refers to the expectation held by both parties that each party thinks highly of the particular relationship (Heide and John, 1992). With strong solidarity, a good relationship climate that parties are willing to maintain a long term relationship is cultivated. However, in practice, between pairs of exchange firms (parties to an exchange), solidarity is mostly at different levels. This assumption is a particularly critical consideration in owner–contractor relationships since the owner and contractor often have discrepancies in their objectives. When each perceives a relationship climate with shared expectations, it may discount the other party's improper behavior by interpreting it as not inconsistent with the relational norms (Kaufmann and Stern, 1988). Consequently, the contractor in such a relationship is less likely to predict a high level of risk even when the contractor cooperates with an owner in a stronger position.

Overall, this study aims to examine how the mediated power of an owner influences contractor opportunism through the role of risk perceptions and the moderating effect of solidarity on the relationship between mediated power and risk perception. In the following sections, the theory background is provided first; subsequently, the research methodology and design including the hypotheses is developed, then the data analysis and discussions are covered; finally, the implications, limitations and conclusions are provided.

2. Theory background

2.1. Opportunism

"Opportunism" comes from a family of terms that should be carefully distinguished. For example, "opportune" and "opportunity", each enjoys favorable connotations; whereas "opportunism" and "opportunist" tend to be regarded as negative, and the latter may act as a noun or as an adjective. In this paper, the intended connotation is negative, despite the fact that a contractor is always entitled to exploit opportunities to pursue legitimate claims against an owner. The key negative qualifier here is deceitful intent on the part of the contractor, but that might be hard to establish conclusively. Opportunism is defined in general terms as "a lack of candor or honesty in transactions, include self-interest seeking with guile" (Williamson, 1975, p. 9). In construction projects, owners and contractors have conflicting interests arising from different objectives (Tang et al., 2006) and construction projects are often complex and surrounded by uncertainty, which may lead contractors to become opportunist.